



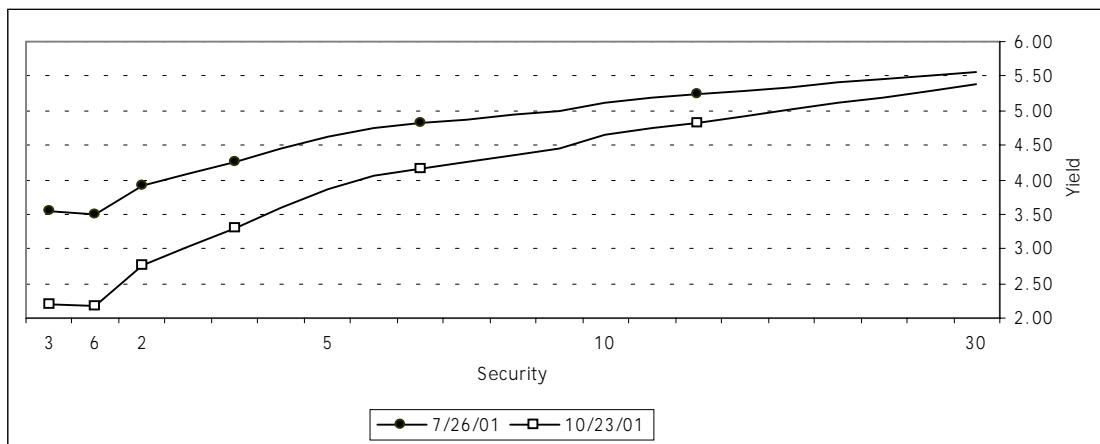
MICHAEL J. MURPHY
State Treasurer

Third Quarter 2001

The QUARTERLY

Local Government Investment Pool

Where will Greenspan go from here?



Historical Yield Curve
July 26, 2001 vs. October 23, 2001

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The effects of September 11 are widespread

The September 11 terrorist attacks on New York and Washington, D.C. were, undoubtedly, the most predominant news of the quarter. The tragic events had dramatic impacts on financial markets. Investors faced uncertainty as to settlement of trades for days, even weeks, following the attacks. Equity markets were shut down until September 17. The bond market, while re-opened on September 13, operated under extremely stressed conditions, initially delaying settlement of trades to trade date plus three days (T+3), and then extending settlement to T+5 (days). Responding to the need for liquidity, the Fed pumped unprecedented amounts of cash into the system on a daily basis.

On September 17, prior to the re-opening of the stock markets, the Federal Open Market Committee (FOMC) dropped the Fed Funds rate 50 basis points (bp), to 3.00%, in their third inter-meeting move since January. In light of recent events, the move was not unexpected. Also as expected, the FOMC lowered rates another 50 bp, to 2.50%, during their regularly scheduled meeting on October 2. This ninth ease brought Fed Funds to its lowest level since 1962.

Many analysts were pessimistic about the economy prior to September 11, with August data offering less than stellar prospects for recovery, e.g., continued weakness in the manufacturing sector, weaker retail sales, and a significant number of job reductions. Moreover, the Federal Reserve's Beige Book survey indicated that overall economic activity remained sluggish in August and early September. On the positive side, the Consumer Price Index, also known as the "cost of living" index, showed the largest drop in 15 years, showing that the FOMC did not have to fear inflation as they tried to spur economic growth.

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Market summary

from page 1

The economic picture remained lackluster as September's retail sales figures plummeted, adding to the probability that Gross Domestic Product (GDP) figures will drop into the negative range for the third and fourth quarters. Furthermore, September's employment report confirmed the likelihood that a recession was underway ahead of September 11. The attacks sparked a surge in layoffs and will likely send the unemployment rate up sharply in months to come. While the economic impact of the events of September 11 may not be clear for several months, they could be quite severe as the attacks occurred against a backdrop of established economic weakness.

As expected, with a 125 bp decline in the Fed Funds rate since our last update on July 26, yields of all maturities have decreased, although some have rallied more than others. While the yield curve still shows a slight inversion out to the one-year area, the curve outside of one year has steepened. The spread between the 2-year and 10-year widened by 66 bp from 122 bp on July 26 to 188 bp on October 23. Looking at changes along the entire curve, yields decreased by 133 basis points (bp) in both the 3- and 6-month sectors, while yields in the 2-, 5-, 10-, and 30-year sectors decreased by 114, 77, 48, and 18 bp, respectively, as shown in the Historical Yield Curve graph (see chart on page 1).

After a fairly steady July, the stock markets traded off during August and early September, in response to increasing signs that the economy was in worse shape than previously thought. It was against this backdrop that the attacks on September 11 occurred. After the attacks, the stock markets remained closed for almost four trading days. As widely expected, when they re-opened on September 17, they traded off significantly during that week. Since that time, however, they have rebounded and within a month of the attacks all of the major indices had reached their pre-attack levels. The Dow dipped to 8,236 on September 21, and hit its high on August 2 at 10,551. The Dow closed at 9,352 on October 23. Since our last update, the NASDAQ peaked at 2,087 on August 2 and dropped to a low of 1,423 on September 21. The NASDAQ closed at 1,707 on October 23.

The net return on the LGIP during the third quarter of 2001 ranged from 4.03% to 3.58%. Currently, there are no investment opportunities providing positive carry (i.e. yields above the Fed Funds rate of 2.50%). At this time, the LGIP maintains a longer average life in anticipa-

tion of further Fed eases but is ready to shift to a neutral bias upon indications of a stable fed situation. In this easing environment, the LGIP portfolio's longer average life preserves its yield while lagging the decline in interest rates. Despite this extension in average life, the LGIP is positioned to provide adequate liquidity to LGIP participants and take advantage of any cheapness in the yield curve.

Update on the LGIP Web-Client

At the WFOA conference in Wenatchee this September, we reviewed the transaction and administration functions of the enhanced Web Client also known as the **Treasury Management System (TM\$)**. TM\$ is scheduled to be up and running by the end of this year.

In addition to the existing information you can currently access, there are several new features that will allow you, the participant, the ease and convenience of conducting LGIP transactions. Listed below are a few of those features:

- Enter your transactions directly (funds are still transferred via wire);
- Browse transactions previously entered;
- Ability to change transactions prior to cut-off, as long as it's within the parameters of the LGIP (e.g. no transactions greater than \$1 million after 9am);
- Enter transactions with future effective dates; and,
- Transaction versus view-only authority.



As we prepare to go live with TM\$, we would like to get the authorization forms distributed and back from participants so that logon identifications and passwords can be completed. Please contact your LGIP Administrator, Tracie Kier, via e-mail at tracie@tre.wa.gov and she will e-mail the form to you. If you do not have e-mail you may call her at 1-800-331-3284. Once completed, please send

LGIP Advisory Committee

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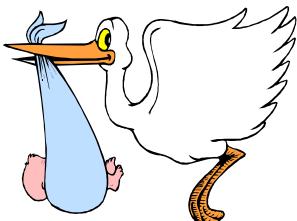
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EVENTS

The Investment Team is having a baby!

Tracie Kier, your LGIP Administrator, is having a baby. She is due on November 11 and plans on taking three months for maternity leave.

Lisa Hennessy, who is currently an investment officer at OST, will assume the LGIP Administrator role during Tracie's absence. Prior to becoming an OST investment officer, Lisa was the LGIP Administrator, so many participants are already familiar with Lisa and are aware of her experience and knowledge in the position.



Congratulations, Tracie! We wish you, your husband, and your new baby the best. For baby updates, keep an eye on our web-site at www.wa.gov/tre/lkip.htm.

Welcome new LGIP participants

Help us in thanking and congratulating our new LGIP participants who have become members in the third quarter of 2001:

Central Washington University

Columbia County Treasurer

Eastern Washington University

Everett Public Facilities District

City of Liberty Lake

Pend Oreille County Public Health District

Western Washington University

Full agenda for the LGIP Advisory Committee

The LGIP Advisory Committee met Sept. 26. Treasurer Murphy introduced the two new committee members, Chuck Greenough, Assistant Director, State Board for Community and Technical Colleges and Kathy Turnbull, San Juan County Treasurer.

OST gave a brief update on the net LGIP returns for January through August 2001. During that time, the LGIP has outperformed its benchmark by about 56 basis points (bp). Since March 2001 the LGIP yield has declined steadily, as a result of the dramatic decline of the Fed funds rate. An update on market conditions surrounding the World Trade Center disaster was given. Trades were done each day of that week, but communication with the custodian, The Bank of New York (BONY), was disrupted due to evacuation of BONY from their buildings. Although BONY made contact on each of the days following the attack and said that they were up and running at a back-up site, it became evident that they were not. Consequently, on September 16 the decision was made to suspend the purchase of repurchase agreements (repos) and discontinue securities lending. The decision as to when to get back into the repo and securities lending markets will be based on OST's confidence that both BONY and the settlement systems are functioning normally.

OST stated that the impacts of the Sept. 11 tragedy had dramatic effects on the money market arena. The Fed imposed delayed settlement procedures for fixed income securities. As a result of the delayed settlement for fixed income product, investors were forced into money market products, like repo and overnight discount notes. Combined with the unusually large amount of cash that the Fed was pumping into the system, the demand for money market securities went through the roof, causing overnight investments to drop to as low as 0.2%. It was explained how the LGIP's anticipated gross rate for the month is determined and how the extremely low overnight levels affected this rate.

Treasurer Murphy presented the Certificate of Achievement for Excellence in Financial Reporting to the LGIP for its Fiscal Year 2000 Comprehensive Annual Financial Report. On behalf of the LGIP, the award was presented to OST staff members: Darrel Jensen, Director, Accounting Services; Wendy Weeks, Manager, Accounting Services; Cindy Shave, Investment Accounting; Alberta Quinlan, Investment Accounting; and Toni Doyle, Office Assistant Lead.

A review of the Fiscal Year (FY) 2001 actual and FY 2002 projected budget was given. During FY 2001, the expenses came in pretty much on target, while the high average balance for FY 2001 resulted in collected fees being much higher than had been anticipated. Since fees collected in excess of expenses are rebated to participants, a rebate of \$931,062 was made to participants in July 2001. An inquiry was made about using the rebate to fund training sessions for local government entities. After discussion it was decided that OST will continue its involvement in investment training through the associations, as well as being available to provide specific training upon request. The estimated expenses for FY 2002 are \$495,000. This drop in expenses is due to the reduction in TM\$ and custody costs.

OST reviewed the proposed revisions to the LGIP Investment Policy which were minor and technical. The revisions were approved and supported by all committee members.

A brief overview of the Web-Client process was given. Phase III of TM\$ is under production and the testing process is going smoothly. Eight Beta testers will begin testing Phase III of the LGIP Web-Client beginning in October. By Dec. 31, the system should be fully operational.

Treasurer Murphy gave a brief overview of the Renovation Plan which is scheduled for the Legislative Building beginning in November. OST will be relocated to the Sunset Life building in Tumwater until December 2004.

LGIP Holiday Schedule for 2001 and 2002

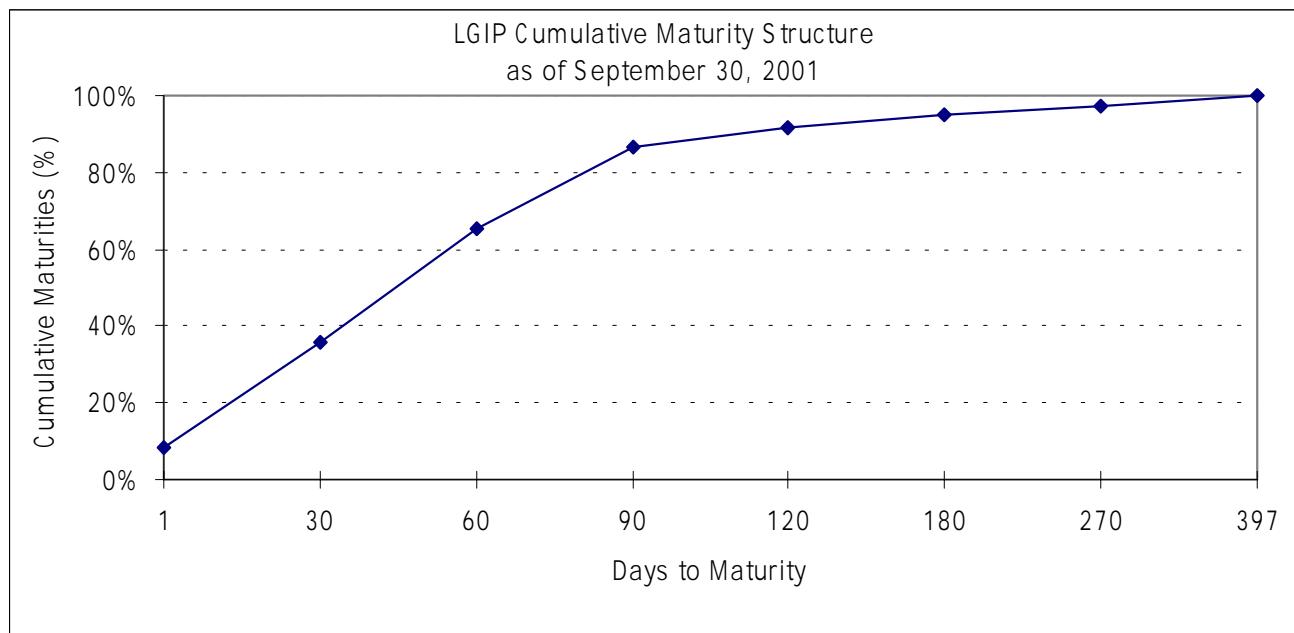
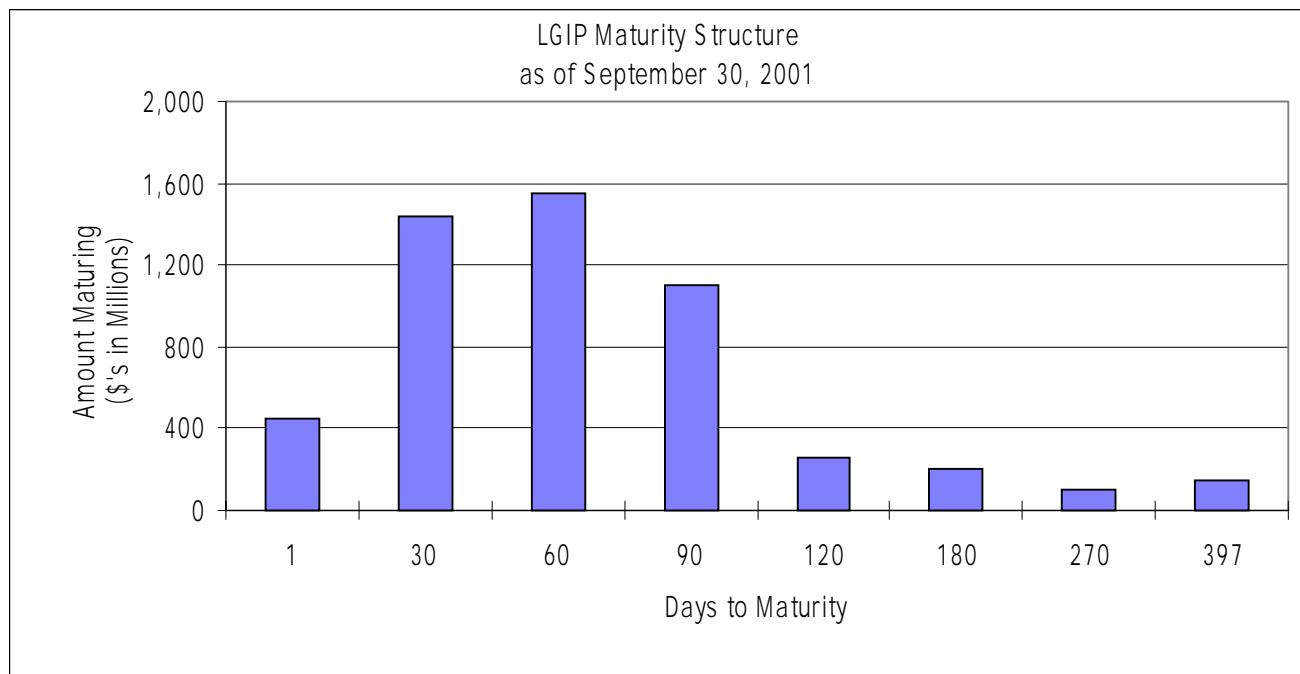
The Local Government Investment Pool will be closed on the following days:

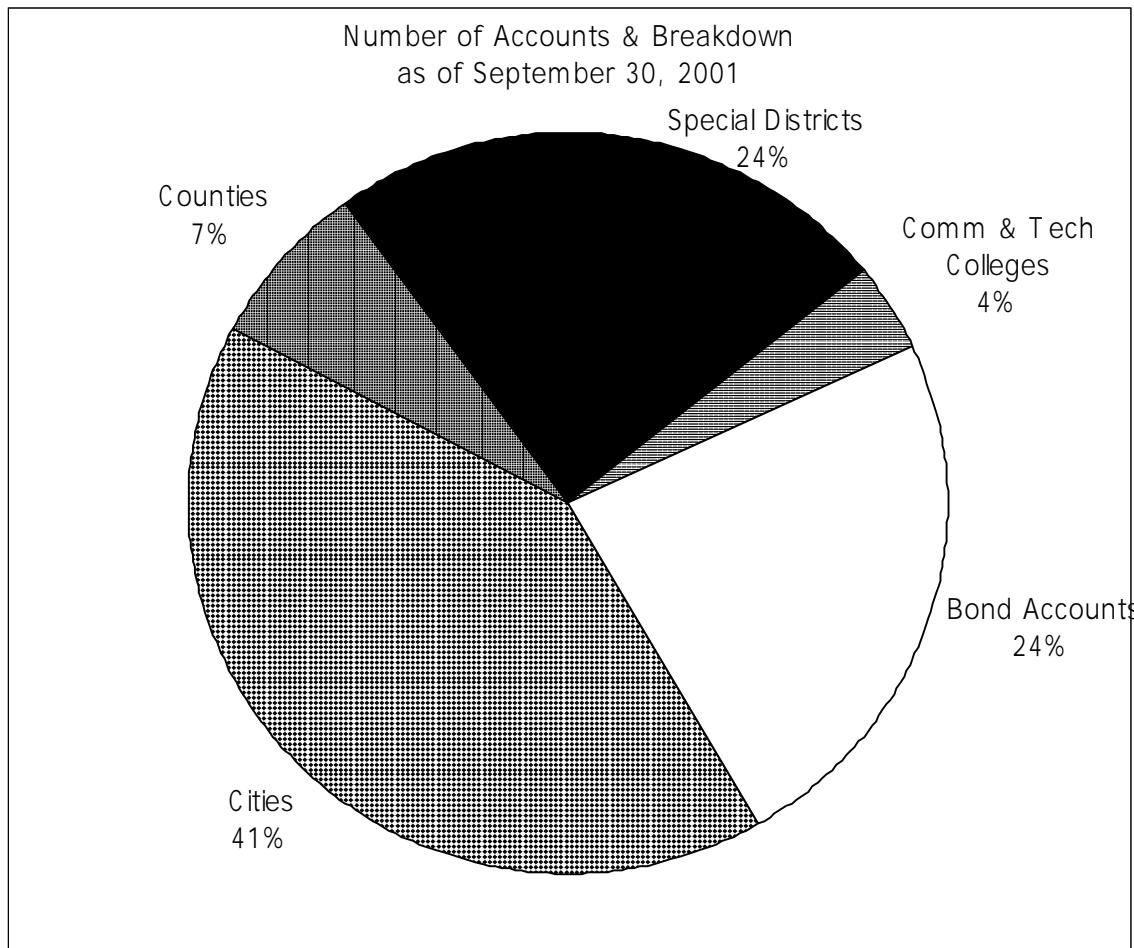
2001

Monday	November 12	Veteran's Day
Thurs/Fri	November 22-23	Thanksgiving
Tuesday	December 25	Christmas Day

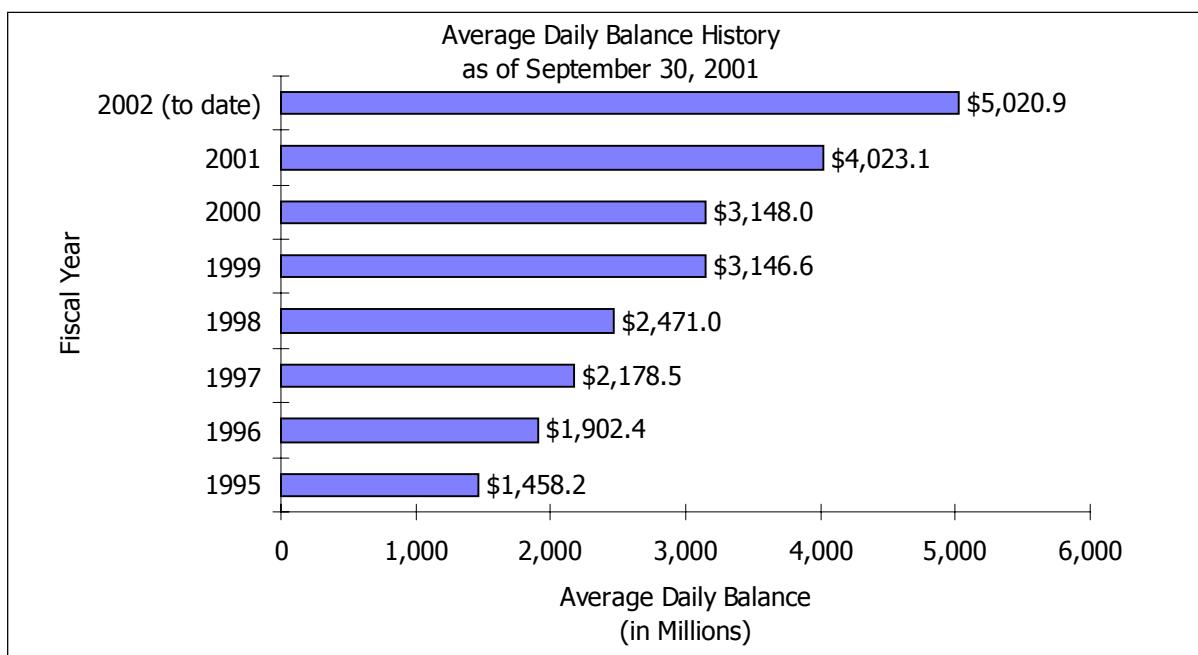
2002

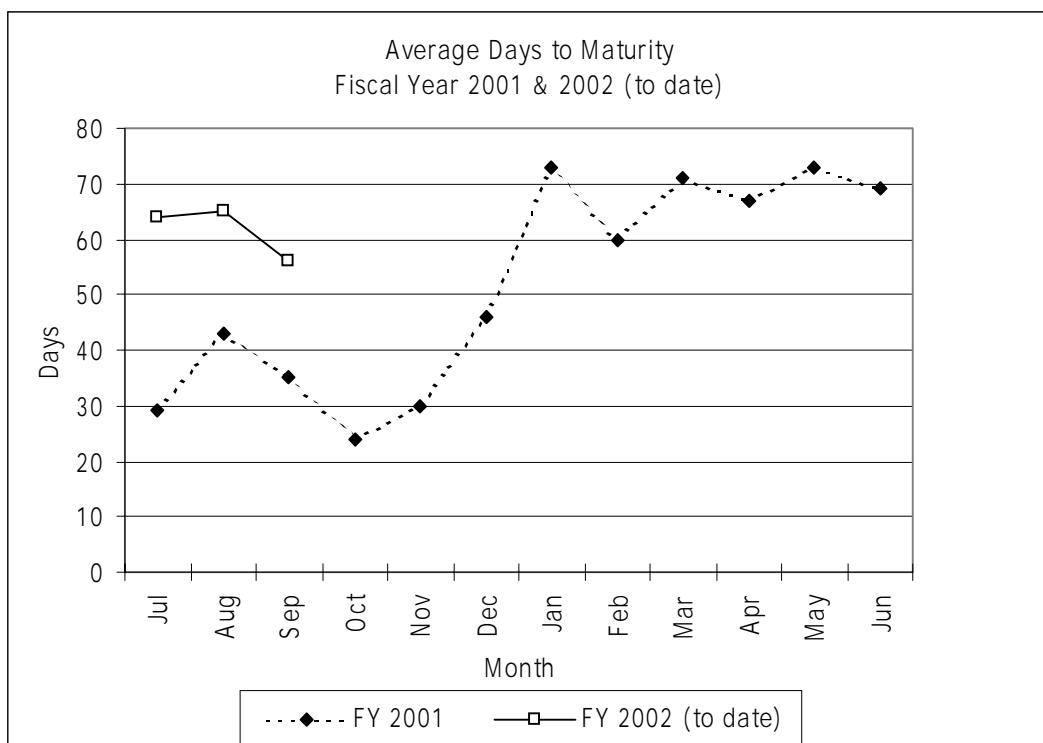
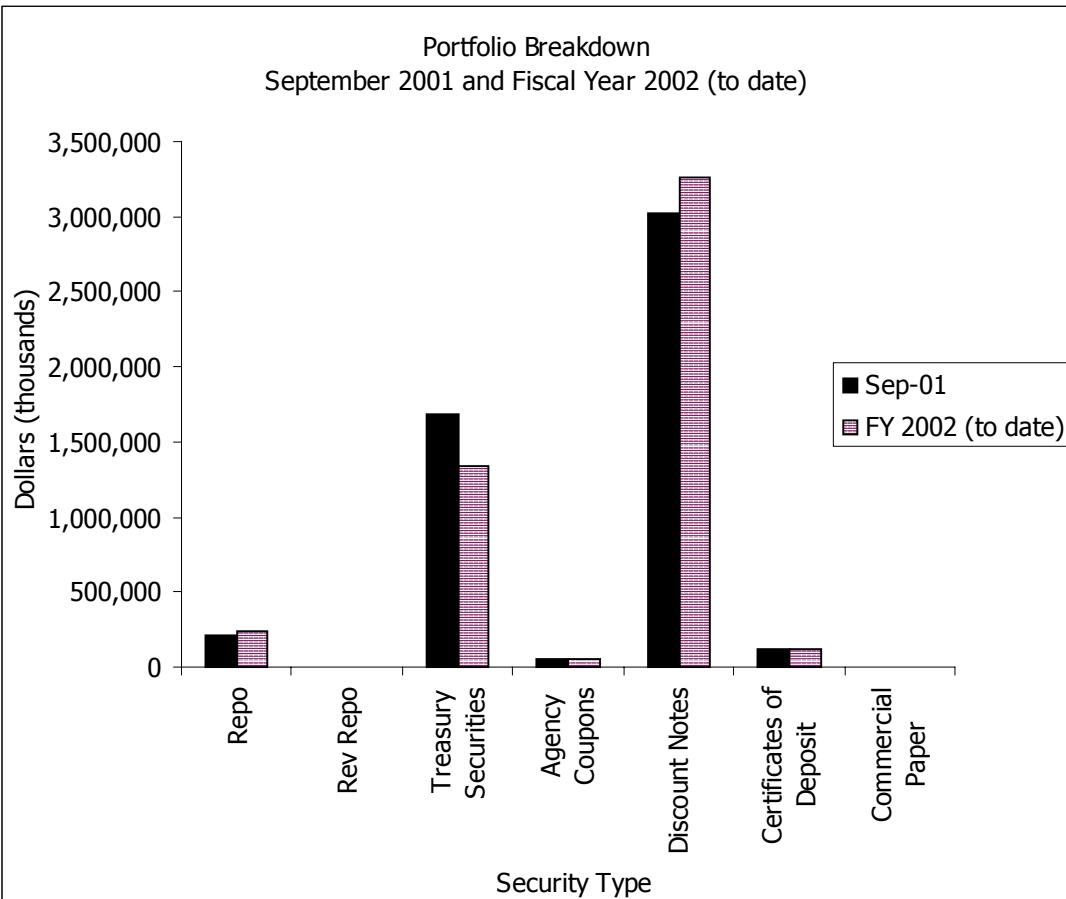
Tuesday	January 1	New Year's Day
Monday	January 21	Martin Luther King's Birthday
Monday	February 18	President's Day
Monday	May 27	Memorial Day
Thursday	July 4	Independence Day
Monday	September 2	Labor Day
Monday	October 14	Columbus Day
Monday	November 11	Veteran's Day
Thurs/Fri	November 28-29	Thanksgiving
Wednesday	December 25	Christmas Day





Total number of accounts: 532





Anticipated gross rate for the month? Huh?

Are you wondering what is the anticipated gross rate for the month? You know, the rate that Tracie Kier, your LGIP Administrator, leaves on her voice mail when you call the LGIP toll-free line? The mystery will now be solved.

This rate is a prediction by Cristin Wilson, the LGIP's portfolio manager, of what the earnings rate of the LGIP portfolio will be for the entire month. This prediction is based on the earnings yield of the portfolio at the beginning of the month, the amount of securities maturing in the portfolio throughout the month and an estimate of the rate at which the maturing funds will be reinvested. More specifically, as the LGIP begins a new month, there are two known elements to estimating the rate for the month: first, the amount of securities maturing and, therefore, the amount that may need to be reinvested; and, second, the earnings yield on what is maturing in the current and coming months. The big "unknown" is the reinvestment rate, especially in an environment where the Fed is aggressively adjusting the Fed Funds rate, as has been the case thus far in 2001. In order to provide participants with the most accurate prediction of the LGIP's yield for the month, the rate setting is based on actual market conditions, without anticipating what action the Fed may or may not take. For example, if a fed action is expected during the month it is not factored into the LGIP's anticipated rate until it actually occurs.

Furthermore, as you may expect, as the month progresses, the estimate is based on month-to-date actuals plus the reinvestment rate estimate for the remainder of the month. Therefore, the estimate becomes more exact as the month continues.

In addition, the estimated rate is quoted on a gross basis NOT a net basis. Until the rate is finalized for the month, the LGIP does not quote on a net basis. However, if you would like to compute that internally, simply take the anticipated gross rate and subtract three and one-half basis points (3.5 bps or .035). For example, if the gross rate is 3.535%, the net rate would be 3.50% (i.e. 3.535 - .035 = 3.50).

In addition to this rate being available from calling the LGIP toll-free line at 800-331-3284, you can also access this information via our web-site at: www.wa.gov/tre/lgip.htm.

Update on the LGIP Web-Client

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the original back and you will be contacted when your form has been processed. On the form, the box labeled "Full Access" is for authorization to both conduct transactions and view information, whereas the box for "View Only" allows you authorization to view information but not conduct transactions.

Even if you have completed a Web Client Authorization form in the past but plan on using TM\$ for transactions, you must complete the new TM\$ Logon Authorization Form. If you do not complete a TM\$ Logon Authorization form, all parties currently listed on your Web Client Authorization form will be given View Only authorization.

Please note that only persons currently listed on the Transaction Authorization Form can be listed on the TM\$ Logon Authorization form with Full Access.

Please contact Tracie at the above number if you have any questions or concerns. We are looking forward to moving ahead, with you, into the final stages of TM\$.

Washington State Local Government Investment Pool
Position and Compliance Report
as of September 30, 2001
(Settlement Date Basis)

LGIP Portfolio Holdings

	Cost	Percentage of Portfolio
Repurchase Agreements	\$ -	0.00
U.S. Treasury Securities	1,647,954,799	31.55
U. S. Agency Bullets	50,043,734	0.96
U.S. Agency Generic Floaters	.....	0.00
U.S. Agency Discount Notes	3,405,377,750	65.20
Certificates of Deposit	119,350,000	2.29
Bankers Acceptances	.....	0.00
Commercial Paper	.....	0.00
Reverse Repos	.....	0.00
* Total Excluding Securities Lending	\$ 5,222,726,283	100.00

Securities Lending Holdings

	Cost
Repurchase Agreements	\$ -
Banker's Acceptances
Commercial paper
Total Securities Lending	-

**Total Investments &
Certificates of Deposit** \$ 5,222,726,283

Policy Limitations

*The policy limitations include investment of cash collateral by a securities lending agent calculated as percentages of the portfolio holdings Total Excluding Securities Lending.**

<u>Size Limitations</u>	Holdings	Percentage of Portfolio	Policy Limitations Percentage
Certificates of Deposit	119,350,000	2.29	10%
Bankers Acceptances (BA)	0.00	20%
Commercial Paper (CP)	0.00	25%
Securities With Higher Volatility	0.00	10%
Repos Beyond 30 days	0.00	30%
Aggregate BA & CP Holdings	0.00	35%

Leverage (30% Total Limit)

Securities on Loan (dollars out on loan) \$

Reverse Repos

Total Leverage \$

0.00%

Maturity Limitations

Portfolio Average Life
 Maximum Maturity
 Maximum Maturity of Repo
 Maximum Maturity of Reverse Repo
 Average Life of Reinvestment of Cash by Lending Agent

<u>Currently</u>	<u>Policy Limitations</u>
57 days	90 days
304 days	397 days
0 day(s)	180 days
0 day(s)	90 days
0 day(s)	14 days

Policy Limitations (Continued)

<u>Repo Limits Per Dealer</u>		Total Repo Percentage (20% limit)	Term Repo Percentage (10% limit)	Projected Redemptions	Projected Position
	<u>September 30, 2001</u>			<u>10/1/01</u>	<u>10/1/01</u>
Banc of America Securities LLC	\$.....	0%	0%	.....	.....
Bank of New York	0%	0%	.....	.....
Barclays Capital Markets	0%	0%	.....	.....
Bear Stearns & Co.	0%	0%	.....	.....
CS First Boston	0%	0%	.....	.....
Chase Manhattan	0%	0%	.....	.....
Daiwa Securities America Inc.	0%	0%	.....	.....
Dresdner Securities USA	0%	0%	.....	.....
Fuji Securities	0%	0%	.....	.....
Greenwich Capital Markets Inc.	0%	0%	.....	.....
Lehman Brothers Inc.	0%	0%	.....	.....
Merrill Lynch & Co., Inc.	0%	0%	.....	.....
Morgan Stanley	0%	0%	.....	.....
Nesbitt Burns	0%	0%	.....	.....
Nomura Securities Intl Incorporated	0%	0%	.....	.....
Paribas Corporation	0%	0%	.....	.....
Prudential Securities	0%	0%	.....	.....
Salomon-Smith Barney	0%	0%	.....	.....
UBS Warburg LLC	0%	0%	.....	.....
Total	\$.....	0%	0%	.....	.....

<u>Issuer Limitations</u>		Percentage (5% limit)	Rating (A1/P1 or Better)
<u>** Commercial Paper</u>	<u>Cost</u>		

No Commercial Paper holdings as of September 30, 2001.

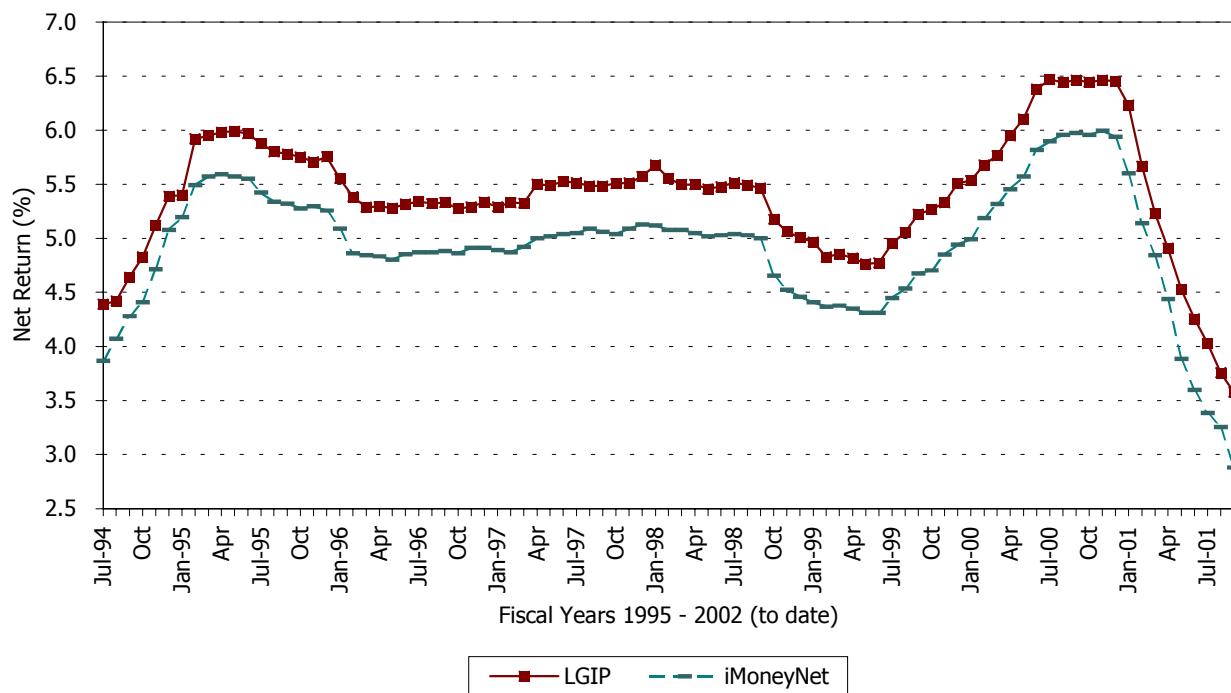
Banker's Acceptances

No Banker's Acceptance holdings as of September 30, 2001.

**** These are the limitations of the formal Investment policy. However, operating guidelines place limits of 3% per issuer.**

LGIP Performance Comparison

**iMoneyNet, Inc., Government Only/Institutional Only
versus
Local Government Investment Pool**



Net Rate of Return Fiscal Years 1995 – 2001

Average Net Rate of Return of Government Only/Institutional Only Money Market Funds, Money Market Insight, iMoneyNet, Inc., Westborough, MA.

NOTE: Rates are calculated on a 360-day basis.

The above comparison shows how the LGIP has performed relative to its benchmark since July 1994. This benchmark is the iMoneyNet, Inc., Government Only/Institutional Only Money Market Funds, which is comprised of privately managed money market funds similar in composition and investment guidelines to the LGIP.

The LGIP net rate of return has outperformed its benchmark since July 1994 by an average of 47.3 basis points. This translates into the LGIP earning \$92.46 million over what the average comparable private money fund would have generated.

Local Government Investment Pool

STATEMENT OF NET ASSETS

September 30, 2001

Assets

Investments, at amortized cost:	
U.S. Agency Coupons	50,043,734
U.S. Agency Discount Notes	3,405,377,750
U.S. Treasury securities	1,647,954,799
	<hr/>
Total Investments (Settlement Date Basis)	5,103,376,283

Due from Brokers - Securities Purchased But Not Settled,
at amortized cost:

U.S. Agency Discount Notes	49,712,139
	<hr/>

Total Due from Brokers	49,712,139
	<hr/>

Total Investments (Trade Date Basis)	5,153,088,422
	<hr/>

Certificates of Deposit	119,350,000
Cash	6,284,982
Interest receivable	12,756,446
Investment trades pending receivable	50,000,000
	<hr/>
Total Assets	5,341,479,850
	<hr/>

Liabilities

Accrued expenses	1,011,860
Due to Brokers	49,712,139
	<hr/>

Total Liabilities	50,723,999
	<hr/>

Net Assets

Participant Net Asset Value, Price per Unit	<hr/>
	\$ 1.00

Total Amortized Cost - Settlement Date Basis	\$ 5,222,726,283
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QUARTER AT A GLANCE

July 1, 2001 - September 30, 2001

Total investment purchases: \$ 22,177,293,537

Total investment sales: \$ 99,589,111

Total investment maturities: \$ 21,911,644,463

Total net income: \$ 48,942,348

Net of realized gains and losses: \$ -

Net Portfolio yield (360-day basis):

July 4.0276%

August 3.7578%

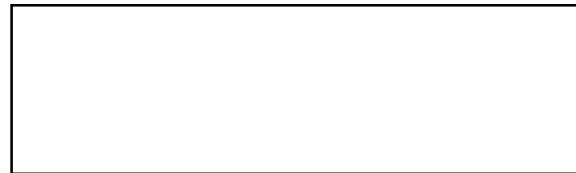
September 3.5767%

Average weighted days to maturity: 56 days

WASHINGTON STATE LOCAL GOVERNMENT INVESTMENT POOL
OFFICE OF THE STATE TREASURER
PO BOX 40200
OLYMPIA WA 98504-0200

RETURN SERVICE REQUESTED

PRSR STD
U.S. Postage Paid
Olympia WA
Permit No. 179



Legislative Building, PO Box 40200, Olympia WA 98504-0200

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